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JANUARY 18, 2013

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FEBRUARY 7, 2013

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MAY 28, 2013



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JAMES L. SCHNEIDERMAN

January 18, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in dark ink, appearing to read "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **REVIEW OF COMMUNITY DEVELOPMENT COMMISSION'S FLEET
SERVICES SOLICITATION (Board Agenda Item 63-B, December 4,
2012)**

At the December 4, 2012 Board of Supervisors (Board) meeting, on a motion by Supervisor Michael D. Antonovich, your Board directed the Auditor-Controller (A-C) to review the Community Development Commission's (CDC) competitive solicitation process for the recent lease of fleet vehicles. The Board expressed particular interest with the extent of CDC's outreach efforts to potential vendors including:

1. Who determined the companies to be contacted?
2. How many responses were returned?
3. How many qualified vendors actually received a request for information from CDC?

In addition to the Board's motion, there were media reports which raised various concerns about the CDC's internal purchasing process, including that:

4. The CDC entered into a leasing agreement with Enterprise Fleet Management (Enterprise) without contacting some of the vendors on CDC's list of 50 vendors to whom contact was allegedly made.

5. **Some of the vendors contacted by the CDC were not in the business of providing leased vehicles.**
6. **Lobbying activities by Mr. Matt Knabe, Partner with lobbying firm Englander, Knabe and Allen, may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise.**

Background

On March 6, 2012, the Board approved the CDC's request for a sole source agreement with Enterprise for the lease of 60 new vehicles including ongoing maintenance, 24-hour roadside assistance, loaner vehicles, and insurance services for these vehicles, as well as the 17 existing CDC fleet vehicles. The CDC has its own contracting policies and procedures, and is thus not governed by the County's contracting procedures.

Investigators from the A-C's Office of County Investigations (OCI) interviewed CDC managers and staff, and an Internal Services Department (ISD) contracting manager, reviewed Board correspondence and CDC files, and contacted potential fleet leasing vendors, a representative of Enterprise, and lobbyist Mr. Matt Knabe who's firm represents Enterprise. Attached is our investigative report, including recommendations to strengthen CDC's future competitive solicitation and sole source procurement processes.

Summary of Findings

OCI concluded that the CDC did not provide effective vendor outreach, and that the outreach provided was insufficient to justify the sole source nature of the approved agreement. The CDC informed OCI Investigators that they believed the leasing and fleet services agreement would save approximately \$300,000 annually. Because of the absence of a truly competitive procurement process, OCI is unable to determine if the CDC could have achieved greater savings on its fleet leasing and services agreement. However, the potential for greater savings from a more competitive process appears to be plausible.

During our review, CDC staff shared with OCI Investigators that solicitation outreach efforts had been made to 17 vendors, not 50 vendors as CDC had defined within documentation supporting the Board's approval of the fleet agreement. Our review determined 16 vendors were included in CDC's "e-mail only" outreach efforts. Responses specific to the Board's three expressed questions with respect to CDC's vendor outreach, and to the media's reports, are as follows:

1. Who determined the companies to be contacted?

A Contract Analyst with the CDC used historical vendor files to compile the list of 16 companies to which "e-mail only" outreach efforts were conducted, in the form of a single group e-mail addressed to all 16 vendors. The CDC's outreach to vendors was in the form of a Request for Information (RFI) rather than a Request for Proposals (RFP). An RFP would have initiated a requirement for the CDC to advertise the solicitation on both the CDC's and the County's websites. In CDC's case, the solicitation never advanced to the point of requesting proposals from vendors. However, CDC violated its own policy that requires all procurement processes in excess of \$10,000 to be advertised on both the CDC's and the County's websites.

The CDC's outreach also failed to target over 60 retail automobile dealerships in Los Angeles and Orange Counties that offer leasing programs for the types of vehicles the CDC was seeking, and did not include established rental car companies that provide fleet services similar to those provided by Enterprise. The CDC chose to sole source the vehicle leasing and fleet services to Enterprise, based on the single response received from Enterprise to the CDC's RFI. The CDC also based its sole source decision on its historical experiences of only Enterprise responding to a 2006 CDC RFP for a limited scope of vehicle leasing, and a 2009 CDC RFI for a similar limited scope that combined vehicle leasing with fleet maintenance services.

2. How many responses were returned?

Only one (Enterprise) of the 16 vendors that the CDC claimed to have sent the e-mail to, responded to the CDC's e-mail outreach. OCI Investigators determined that only 10 of these 16 vendors that OCI contacted appeared to have the realistic potential to provide vehicles consistent with CDC's fleet needs. Four of these 10 vendors indicated to OCI their willingness to compete for CDC's fleet services. Of the remaining six vendors, four are not in the business of providing vehicle leasing services, one does not offer the heavier trucks included with the CDC's fleet needs, and one is in Northern California, rendering vehicle delivery and ongoing service agreements impractical.

3. How many qualified vendors actually received a request for information from CDC?

OCI Investigators were able to get in touch with 10 of the 16 vendors, and all 10 expressed that they did not remember receiving the CDC's e-mail. However, CDC provided to OCI an e-mail inquiry from one of the vendors to demonstrate that at least that vendor received the CDC's e-mail and had since responded. OCI has no way of authenticating whether the vendors received the CDC's e-

mail, but lack of vendors' responses are indicative of insufficient CDC outreach. As noted above, four of the 16 vendors are not in the business of providing vehicle leasing.

- 4. The CDC entered into a leasing agreement with Enterprise without contacting some of the vendors on CDC's list of 50 vendors to whom contact was allegedly made.**

Our review confirmed media reports that the CDC did not contact at least 34 of the vendors from the list of 50 vendors provided by the CDC to the media. Attempts were made to contact only 16 vendors, not 50, using e-mail as the only form of vendor outreach. The list of 50 vendors was compiled from internal CDC sources in response to a media inquiry, and only after the leasing contract had been awarded. OCI concluded that the CDC's outreach was substantially inadequate given the many competitors in the retail vehicle leasing industry in Southern California.

- 5. Some of the vendors contacted by the CDC were not in the business of providing leased vehicles.**

OCI confirmed that at least four of the 16 vendors to which CDC sent an e-mail are not in the business of providing vehicle leasing services. However, it is appropriate for CDC to conduct outreach to vendors that indicate interest in notification whenever a solicitation is released for a particular line of business. Each of the four vendors, though not in the business of leasing vehicles, had some relationship to the automotive industry.

- 6. Lobbying activities by Mr. Matt Knabe, Partner with lobbying firm Englander, Knabe and Allen, may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise.**

Mr. Matt Knabe told OCI Investigators that he was unaware of the CDC's recent vehicle leasing and fleet services solicitation until the proposed contract with Enterprise appeared on the Board's agenda. He also said no one from his firm conducted any lobbying activity related to the CDC's vehicle leasing and fleet services solicitation, and that no one from his firm had any communication with Supervisor Don Knabe about the solicitation. In addition, Enterprise's Southern California Account Manager told OCI Investigators that she was unaware of any lobbying efforts on behalf of Enterprise to attempt to influence the CDC's award of the fleet contract.

OCI Investigators utilized commercial and public domain software, and reviewed social media, to determine if evidence existed showing familial or business relationships between the three primary Enterprise representatives and any of the four CDC employees involved with the solicitation. Based on our electronic media search activity, we found no evidence to support any attempts by anyone to influence the award of the fleet services contract. We also found no linkage between the CDC and Enterprise employees.

Conclusion

The CDC's RFI used "e-mail only" outreach efforts to 16 potential vendors, not 50 vendors as reported to the Board. Of those 16 vendors, OCI determined that only 10 had the realistic potential to provide vehicles consistent with CDC's fleet needs. Four of these 10 vendors indicated to OCI their willingness to compete for CDC's fleet services.

The CDC's vendor outreach was inadequate to provide the feedback necessary to ensure a competitive process, or to justify a sole source contract. Without sufficient vendor outreach, OCI is unable to determine whether the CDC received reasonably competitive pricing for its fleet services agreement. We question what position of negotiating strength CDC possessed given that Enterprise was identified as the only viable bidder.

Media reports alleged lobbying activities may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise. Based on OCI's interviews of CDC employees, Mr. Matt Knabe, and a representative of Enterprise, and our search of various electronic media, we found no evidence to support any attempts to influence the award of the fleet services contract, and found no linkage between CDC and Enterprise employees.

Review of Report

We discussed our report with CDC management on January 15, 2013. CDC management expressed general agreement with our findings and recommendations, and indicated they have already implemented procedural changes to address some of our findings. The CDC will provide a response directly to your Board within 30 days.

The A-C's Audit Division recently conducted a review of CDC's operations to evaluate internal controls and compliance with fiscal policies in key areas such as contracting and procurement. A final report of the Audit Division's findings and recommendations is forthcoming.

We thank the CDC's management and staff for their cooperation and assistance during our review. Please call me or your staff may contact Guy Zelenski, Chief of OCI, at (213) 893-0058 if you have any questions.

WLW:GZ:rs
2012-7478CDC Report Fleet Services Cover

Attachment

c: William T Fujioka, Chief Executive Officer
John F. Krattli, County Counsel
Sachi A. Hamai, Executive Officer, Board of Supervisors
Sean Rogan, Executive Director, Community Development Commission
Tom Tindall, Director, Internal Services Department
Audit Committee
Public Information Office

**REVIEW OF COMMUNITY DEVELOPMENT COMMISSION'S
FLEET SERVICES SOLICITATION**

Results of Investigation

On March 6, 2012, the Board of Supervisors (Board) approved the Community Development Commission's (CDC) request for a sole source agreement with Enterprise Fleet Management (Enterprise) for the lease of 60 new vehicles, including ongoing maintenance, 24-hour roadside assistance, reduced-rate rental cars, loaner vehicles, and insurance services for these vehicles, as well as the 17 existing CDC fleet vehicles. Media reports alleged that the CDC entered into a leasing agreement with Enterprise without contacting some of the vendors on CDC's list of 50 vendors to whom contact was allegedly made, and that some of the vendors were not in the business of providing leased vehicles. In addition, the media inferred that lobbying activities by Mr. Matt Knabe, son of Supervisor Don Knabe, may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise.

At the December 4, 2012 Board meeting, on a motion by Supervisor Michael D. Antonovich, your Board directed the Auditor-Controller (A-C) to review the CDC's competitive solicitation process for the recent lease of fleet vehicles. The Board expressed particular interest with the extent of CDC's outreach efforts to potential vendors including:

- 1. Who determined the companies to be contacted?**
- 2. How many responses were returned?**
- 3. How many qualified vendors actually received a request for information from CDC?**

In addition to the Board's motion, there were media reports which raised various concerns about the CDC's internal purchasing process, including that:

- 4. The CDC entered into a leasing agreement with Enterprise without contacting some of the vendors on CDC's list of 50 vendors to whom contact was allegedly made.**
- 5. Some of the vendors contacted by the CDC were not in the business of providing leased vehicles.**
- 6. Lobbying activities by Mr. Matt Knabe, Partner with the lobbying firm of Englander, Knabe and Allen, may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise.**

Background

The CDC has approximately 550 employees in 70 locations throughout the County. CDC provides housing and community development to improve the quality of life and environment for individuals, families, and communities. CDC is funded primarily by grants from the United States Department of Housing and Urban Development.

The Board serves as the governing Board of Commissioners for the CDC. At the Board's direction, the CDC has established its own accounting, budgeting, and personnel systems, and related policies and procedures (P&Ps). The CDC developed these P&Ps, including its own Procurement and Contracting Procedures, in order to comply with the administrative and fiscal requirements of its funding sources. Though there is collaboration between the CDC and the County to take advantage of procurement synergies, the CDC is not bound by the County's P&Ps.

The CDC's Procurement and Contracting P&Ps provide guidance to CDC staff on the administrative steps necessary when acquiring products and services. These P&Ps emphasize the preference for competitive bidding under most procurement circumstances.

According to information provided by the CDC, in 2006 the CDC released a Request for Proposals (RFP) for the lease of 14 vehicles. The only response to this RFP was from Enterprise. CDC did not proceed with a leasing contract. In 2009, the CDC released a Request for Information (RFI) to determine the feasibility of starting a pilot program utilizing five leased vehicles with full maintenance services in the Antelope Valley. Again, only Enterprise responded to the RFI. In 2010, the CDC began the pilot program by sole source contracting with Enterprise for the five leased vehicles and full maintenance in support of its inspectors in the Antelope Valley. The A-C's Office of County Investigations (OCI) Investigators could not review the CDC's prior solicitation documentation because the files for the program are no longer available.

The purpose of the CDC's pilot program was to assess the cost effectiveness and efficiency of contracting for vehicles in outlying areas such as the Antelope Valley. Subsequent to the implementation of the pilot program, CDC's analysis concluded that the pilot program had been successful at reducing its vehicle costs. In addition, the CDC identified a need for a solution to staff downtime because of the travel distance between outlying CDC facilities, such as those in the Antelope Valley, and CDC's fleet service garage in East Los Angeles. The CDC told OCI Investigators that they calculated that contracting for all their vehicle leasing and fleet services would save approximately \$300,000 annually. Based on their evaluation of the success of their pilot program, CDC management decided in 2011 to outsource its entire fleet services operation to include:

- Lease of 60 vehicles;
- Vehicle registration and title services;
- Regular maintenance services for the 60 leased vehicles;
- Regular maintenance for 17 vehicles retained from the existing fleet;
- Loaner vehicles during periods when maintenance is underway;
- Nationwide 24-hour roadside assistance;
- Discounts on rental cars available at various sites; and
- Liability and collision insurance coverage.

CDC's Vendor Outreach Efforts (Questions 1 through 3)

On December 20, 2011, the CDC issued an RFI, which is a process used to solicit information from potential vendors such as their service offerings and cost estimates. This particular RFI was titled "Leased Fleet Vehicle Services", and indicated that the CDC was "...seeking a single-source supplier for an open-end equity vehicle lease..." Interested vendors were instructed to e-mail the CDC's Contract Analyst, but were not informed what specifics were to be included with their e-mail replies. Documentation in support of the CDC's request for Board approval of the fleet services agreement included a summary of outreach activities describing "approximately 50 vendors" to which the RFI was provided. According to this same documentation, Enterprise was the only vendor that responded to the RFI.

On December 10, 2012, the CDC's Executive Director contacted OCI Investigators to share that one of his Contract Analysts admitted to him that only 17 vendors had been provided with the RFI. The Contract Analyst explained to us that the count of 50 vendors to which the RFI was provided was initially intended as a placeholder number within a template document. The actual number of vendors on the RFI distribution list never was corrected, from 50 to 17, as the Board letter advanced along a continuum of review steps. The Contract Analyst perceived that the Board approval process had advanced to the extent that he felt he could not correct the number without embarrassment. When asked for a list of the 50 vendors, he used various sources and created a list of vendors knowing the list was not a true reflection of the vendors that were contacted.

1. Who determined the companies to be contacted?

The CDC's Contract Analyst explained to OCI Investigators that the RFI was distributed to 17 vendors by way of "e-mail only", in the form of a group e-mail addressed to all the vendors. The CDC's Contract Analyst used historical vendor files to compile the list of companies to which the e-mail was sent. Upon review of CDC's vendor outreach list, OCI Investigators determined that the actual number of vendors to which an e-mail was sent was 16, not 17. The RFI document attached to the CDC's e-mail did not clearly inform potential vendors what content was expected with their respective replies, and an exhibit that was to accompany the RFI and list the vehicles to be acquired was not included with the e-mail.

The CDC's P&Ps contain conflicting statements about vendor outreach requirements. The P&Ps provide for the option of e-mailing an RFI to potential vendors, or posting the RFI to the Commission's and the County's websites. But in a different section of the same P&Ps, it is stated that "All procurement over \$10,000 or more must be advertised...[on] the County's website." Thus, CDC violated its own policy by not advertising on both the CDC's and the County's websites. In addition, the CDC's outreach failed to target over 60 retail automobile dealerships in Los Angeles and Orange Counties that offer leasing programs, and did not include established rental car companies that provide fleet services similar to those provided by Enterprise.

2. How many responses were returned?

According to our CDC contacts, only one (Enterprise) of the 16 vendors that the CDC claimed to have sent an e-mail responded indicating interest in providing for the CDC's vehicle leasing and service requirements. OCI Investigators determined that only 10 of these 16 vendors appeared to have the realistic potential to provide vehicles consistent with the CDC's fleet needs. Four of these 10 vendors indicated to OCI their willingness to compete for CDC's fleet services. Of the remaining six vendors, four are not in the business of providing vehicle leasing services, one does not offer the heavier trucks included with the CDC's fleet needs, and one is in Northern California, rendering vehicle delivery and ongoing service agreements impractical.

OCI Investigators made multiple attempts to contact by telephone and e-mail all of the vendors who did not respond to the CDC's RFI. The purpose of the contact attempts was to determine whether the vendors received the RFI, and if so, would they be interested in competing for the services.

3. How many qualified vendors actually received a request for information from CDC?

OCI investigators were able to make contact with 10 of the 16 vendors. All of these 10 vendors said they did not recall receiving the CDC's e-mail. However, CDC provided to OCI an e-mail inquiry from one of the vehicle dealerships to demonstrate that at least that vendor received the RFI and had since responded. OCI has no way of authenticating whether the remaining vendors received the CDC's e-mail, but lack of vendors' responses is indicative of insufficient CDC outreach. OCI's outreach results are summarized in Table 1, as follows:

OCI Investigators' Fleet Services Vendor Outreach Results

(Table 1)

| # | New Vehicle Dealer? | Vendor | RFI Received? | Willing to Bid? | Comments |
|----|---------------------|-------------------------------|---------------|-----------------|-----------------------------|
| 1 | Yes | Huntington Beach Ford | No | Yes | Would research insurance |
| 2 | Yes | George Chevrolet (Bellflower) | No | Yes | Would research insurance |
| 3 | Yes | Thorson Motor Ctr. (Pasadena) | No | Yes | Would research insurance |
| 4 | Yes | Frontier Ford (San Dimas) | No | Yes | Would research insurance |
| 5 | Yes | McPeck Dodge (Anaheim) | No | No | Not interested in contract |
| 6 | Yes | Volkswagen of Alhambra | No | No | Does not sell heavy trucks |
| 7 | Yes | Folsom Lake Ford | No | No | Geographically not feasible |
| 8 | Yes | Jack Gosch Ford (Hemet) | No reply | | |
| 9 | Yes | T. Robbins Ford (Costa Mesa) | No reply | | |
| 10 | Yes | Santa Margarita Ford | No reply | | |
| 11 | Yes | Redlands Ford | No reply | | |
| 12 | No | Autovan LLC | No reply | | Does not sell cars |
| 13 | No | Electric Car Sales & Service | No | No | Does not sell cars |
| 14 | No | Nor-Cal Mobility | No | No | Does not sell cars |
| 15 | No | Transit Plus, Inc. | No | No | Does not sell cars |
| 16 | Yes | Enterprise Fleet Services | Yes | Yes | |

Table 1, above, demonstrates the following:

- All 10 (#1-7 and #13-15) of the vendors that OCI Investigators made contact with did not recall receiving the CDC's e-mail that contained the RFI. However, CDC provided to OCI an e-mail inquiry from one of the dealerships (#1) to demonstrate that at least that vendor received the RFI.
- Only 10 (#1-5, #8-11, and #16) of the 16 vendors had the realistic potential to provide vehicles consistent with CDC's fleet needs. The remaining six vendors are not viable contenders for the CDC's fleet service needs for the following reasons:
 - One auto dealer (#6) represents a manufacturer that does not offer the heavier trucks included with CDC's fleet needs.
 - One auto dealer (#7) is in Northern California, rendering vehicle delivery less cost effective and service agreements logistically impractical.
 - Four vendors (#12-15) are not in the business of providing vehicle leasing.
- Four (#1-4) of seven new vehicle dealerships from which OCI Investigators received a response indicated they would be willing to submit a proposal for the fleet services. These four dealerships each indicated they have not previously provided automobile insurance, but would research the issue with their legal departments to explore a method of providing the full fleet services the CDC is seeking.

OCI Investigators also contacted two vendors, Avis and Hertz, which were believed to provide core business services similar to those of Enterprise. Avis informed us they were not interested in providing fleet services. However, Hertz expressed its willingness to compete for a fleet leasing and service agreement. Hertz indicated it would need to research the insurance services, but based on the type of insurance structure Enterprise arranged, we do not foresee insurance coverage as an impediment to Hertz being a viable contender for CDC's fleet service needs.

Based on a review of documentation from an automotive industry trade association, OCI Investigators determined that there are at least 38 automotive dealers in Los Angeles County that offer the full range of light passenger cars and heavier capacity trucks the CDC was seeking. There are at least an additional 26 automotive dealers with similar product offerings in Orange County. CDC has in the past utilized the Internal Services Department's (ISD) "WebVen" vendor database, but chose to use internal sources to develop their own vendor distribution list for this RFI.

OCI Investigators noted a conflict within the CDC's procedures. CDC's procedures do not require use of the ISD website when conducting an RFI. However, these same procedures do require use of the County's website for any procurement over \$10,000. CDC's RFI effectively became the only procurement process. Thus, CDC's outreach efforts were not in compliance with their own procedures which require advertising on ISD's website.

Additional Vendor Outreach Concerns (Questions 4 and 5)

- 4. The CDC entered into a leasing agreement with Enterprise without contacting some of the vendors on CDC's list of 50 vendors to whom contact was allegedly made.**

Our review confirmed media reports that the CDC did not contact at least 34 of the vendors from the list of 50 vendors provided by the CDC to the media. Attempts were made to contact only 16 vendors, not 50, using e-mail as the only form of vendor outreach. The list of 50 vendors was compiled from internal CDC sources in response to a media inquiry, and only after the leasing contract had been awarded. OCI concluded that the CDC's outreach was substantially inadequate given the many competitors in the retail vehicle leasing industry in Southern California.

- 5. Some of the vendors contacted by the CDC were not in the business of providing leased vehicles.**

OCI confirmed that at least four (identified in Table 1 as #12-15) of the 16 vendors are not in the business of providing vehicle leasing services. However, it is appropriate for CDC to conduct outreach to vendors that indicate interest in notification whenever a solicitation is released for a particular line of business.

Each of the four vendors, though not in the business of leasing vehicles, had some relationship to the automotive industry.

Alleged Influence of the Decision to Sole Source with Enterprise (Question 6)

6. Lobbying activities by Mr. Matt Knabe, Partner with the lobbying firm of Englander, Knabe and Allen, may have had some influence over the CDC's decision to sole source their fleet management services to Enterprise

Mr. Matt Knabe informed OCI Investigators that his firm conducts legislative advocacy activities on behalf of Enterprise. OCI Investigators interviewed CDC's Contract Analyst, Business Manager, and Budget Manager. These three CDC employees represent the chain-of-command with respect to working involvement with the fleet services solicitation. Each denied any involvement or communication with Supervisor Don Knabe, his son Mr. Matt Knabe, any lobbyist, or anyone else attempting to influence the solicitation process for fleet services. All three said they were unaware Supervisor Don Knabe had a son.

OCI Investigators also interviewed the CDC's Executive Director. He stated that he was "100% confident that there was absolutely no influence in regards to the Supervisor's son." He added that "There certainly wasn't any political influence or lobby pressure."

OCI Investigators interviewed Mr. Matt Knabe, who indicated neither he nor his firm had any involvement with the CDC's fleet solicitation process. He added that he was unaware of the CDC's fleet solicitation until it appeared on the Board's agenda. We also interviewed Enterprise's Southern California Account Manager who indicated that to her knowledge there was no involvement of an Enterprise lobbyist with the CDC's fleet solicitation.

OCI Investigators utilized Lexis-Nexis search tools, Internet search software, and reviewed social media to determine if evidence existed showing familial or business relationships between the three primary Enterprise representatives, and any of the four CDC employees noted above. Our searches found no linkage among any of these seven individuals.

Based on our interviews and electronic media search activity, we found no evidence to support any attempts by Mr. Matt Knabe or anyone from his firm to influence the award of the fleet services contract. In addition, our use of electronic search tools did not find any linkage between the CDC and Enterprise employees.

Review of the Competitive Solicitation Process

Based on our review of the CDC's recent vehicle leasing process, OCI identified opportunities to improve solicitations to ensure the CDC maximizes cost savings when acquiring products and services among competing vendors. Following is a discussion

of these opportunities, including recommendations for improved effectiveness of the process.

The RFP Process

OCI Investigators confirmed with an ISD contracting manager that an RFI process is intended for assessing interest and soliciting ideas and/or expertise from within the business community. The RFI process is not an appropriate instrument for soliciting proposals or justifying a sole source agreement. The CDC's RFI says that it is "...for the sole purpose of obtaining information." Information gathered from the RFI process should have been used to develop a Statement of Work (SOW) for inclusion within an RFP process that follows the conclusion of the RFI.

The SOW is fundamental to an RFP process because it describes the detailed elements of the products and services being requested so that vendors are well-informed when preparing proposals and pricing. Before an RFP is provided to vendors, an evaluation instrument needs to be established to specify the scoring criteria upon which vendors' proposals will be evaluated. Establishing scoring criteria in advance lessens the viability of potential future claims that criteria were established to favor a particular vendor.

CDC's RFI included an approximate vehicle count, but did not list the vehicles CDC needed. A list of vehicles would provide reasonably detailed specifications upon which vendors could structure their pricing. In fact, CDC's RFI appropriately did not request pricing from vendors. An RFP is the appropriate process for CDC to request pricing and provide details about requested products and services.

CDC never issued an RFP. Without the RFP process, potential vendors did not have the opportunity to provide proposals. OCI Investigators were told by several CDC staff that they believed Enterprise was the only vendor capable of providing comprehensive fleet services because Enterprise had been the only respondent to the most recent RFI, and was the only respondent to the 2006 pilot program solicitation process. CDC staff also shared with us the desire to expedite the fleet acquisition to achieve projected cost savings. They further shared their belief that an RFP process would have added months to the fleet services acquisition timeline. Therefore, CDC decided to pursue a sole source agreement with Enterprise.

Without an RFP process that is confirmed to have reached multiple vendors, including a SOW for which multiple potential vendors can reasonably compete, conclusive determination of the marketplace for fleet services cannot be made. An RFP process typically includes a bidders' conference at which vendors can ask questions about uncertainties within the RFP. Without that dialog opportunity, the RFI further limits potential competition.

An ISD contracting manager informed OCI Investigators that typically when only one or no response is received to an RFI or an RFP, efforts will be taken to make direct contact with vendors' representatives to determine if they received the RFI or RFP, and if so, why they did not respond. This sort of follow-up is particularly applicable when there are obvious potential competitors, such as in the retail automotive sales industry, and with the inherent uncertainties of e-mail delivery. Direct contacts also reveal opportunities to re-structure RFIs and RFPs to overcome scope attributes that are possible inadvertent impediments to a competitive solicitation process.

No attempts were made by CDC to contact vendors by telephone when only Enterprise had responded to the RFI. As noted above, CDC's RFI was only distributed by e-mail, and did not include a list of vehicles being requested. The limitations of the RFI process are not conducive to a sole source determination.

Review of Scope of Work

CDC policy states that all procurement transactions will be conducted to provide full and open competition, and that competitive solicitations should not contain features which unduly restrict competition. OCI Investigators noted components of the CDC's RFI that could be barriers to competition for the fleet services contract. For example, potential vendors were required to:

- Coordinate the return of old vehicles anywhere in the United States. This requirement may be an impediment for vendors that do not have a business presence outside of Southern California. In addition, CDC managers informed OCI Investigators that they rarely take a vehicle out of Los Angeles County, and from their perspective the nationwide requirement appears unnecessary.
- Provide liability and physical damage insurance coverage. Details of coverage limits, and the ability to subcontract with a licensed vehicle insurer, are not provided within the RFI. Enterprise subcontracted for the CDC's insurance coverage needs. Some auto retailers may not provide insurance as a line of business, but potentially could participate in the solicitation if subcontracting was identified as a viable option.
- Provide 60 to 65 vehicles. Though the list of requested vehicles was never released as part of the RFI process, the actual vehicles leased from Enterprise included 49 Ford cars and trucks, and 11 Chevrolet mid-sized pick-up trucks. CDC's Contract Analyst told OCI Investigators that during the RFI process, CDC had no preference for a particular vehicle manufacturer. Some car dealerships expressed to OCI Investigators that they would have been unable to provide vehicles from a competitor's product line. In addition, using more than one brand can be an impediment to arrangements for maintenance services.

OCI has developed the following recommendations to strengthen the CDC's future competitive solicitation and sole source procurement processes.

Recommendations

CDC management:

1. Implement appropriate corrective and/or disciplinary action.
2. Ensure sufficient vendor outreach, particularly when ample evidence exists of potential competing vendors.
3. Update Policies and Procedures to ensure:
 - Clarity with respect to when a solicitation process needs to be posted on the CDC's and the County's websites.
 - A comprehensive SOW and proposal evaluation criteria are established prior to soliciting for products and services.
 - Contract solicitations are preceded by a bidders' conference.
 - Contracts are not entered into from an RFI process.
 - Direct contact is made with potential vendors when there are minimal or no competing responses to an RFI or RFP.
 - Clearly define, where appropriate, that subcontracting is permissible for requested services that deviate from vendors' core product and service offerings, particularly when the service deviations would tend to limit competition.
 - SOWs for products and services being requested are based on utilitarian specifications in the absence of a prudent documented business reason to request a particular brand nameplate.

Community Development Commission

February 7, 2013

TO: Each Supervisor

FROM: Sean Rogan, Executive Director



**SUBJECT: RESPONSE TO AUDITOR REPORT ON FLEET SERVICES
SOLICITATION**

This memo is in response to the Auditor Controller report of January 18, 2013, due to a motion by Supervisor Michael D. Antonovich requesting a review of the Community Development Commission (CDC) Fleet Services contract (Board Agenda Item 63-B, December 4, 2012).

Attachment 1 outlines the CDC's Corrective Action Plan regarding this issue. While the Commission agrees with the OCI investigators summary of findings in that vendor outreach was insufficient to justify the sole source contract; the Commission still believes that outsourcing the fleet was a best business practice for our agency and that a \$300,000 annual savings is significant given the continuous loss of and reductions in funding.

The CDC has since reorganized the procurement department replacing the procurement officer and disciplining the staff responsible for this procurement. The CDC will also be moving forward with corrective actions as outlined on the attached form including but not limited to updating our policies and procedures and rebidding the fleet services contract.

Upon completion of these corrective actions we will report back to your board on the outcomes and recommendations. The CDC appreciates the cooperation and assistance provided by Auditor Controller during this process and we look forward to a continued collaboration to enhance our business practices.

SR:KRS:ir

Attachment

c: William T Fujioka, Chief Executive Officer
John F. Krattli, County Counsel
Sachi A. Hamai, Executive Officer, Board of Supervisors
Audit Committee



Corrective Action Plan

1. General Information

| | |
|--------------------------------------|--|
| Date CAP document prepared: | February 7, 2013 |
| Department: | Community Development Commission of the County of Los Angeles |
| Name of departmental contact person: | Sean Rogan |
| • title: | Executive Director |
| • phone number: | (626) 586-1500 |
| • e-mail: | Sean.Rogan@lacdc.org |

2. Event Specific Information

| | |
|-----------------------|---|
| Date of event: | January 18, 2013 |
| Description of Event: | Review of Community Development Commission's Fleet Services Solicitation (Board Agenda Item 63-B, December 4, 2012) |
| Event contact person: | Wendy Watanabe, Auditor Controller |
| • e-mail: | WWatanabe@auditor.lacounty.gov |
| • phone number: | (213)974-8302 |

3. Incident/Event Description:

| | |
|--|--|
| Nature of incident/event: | A motion at the request of 5 th district as a result of a KCET story on the above referenced board item initiated an OCI investigation of the procurement to ensure compliance and no improper conduct from Supervisor Knabe's son's lobbying company who represents Enterprise. |
| Provide a brief description of the incident/event: | <p>The report recommended the following:</p> <ol style="list-style-type: none"> 1. CDC Management to implement corrective and/or disciplinary action 2. CDC to ensure sufficient vendor outreach, particularly when ample evidence exists of potential competing vendors 3. CDC to update Policies and Procedures to ensure: <ol style="list-style-type: none"> a. Clarity with respect to when a solicitation process needs to be posted on the CDC and County's website b. A comprehensive Statement of Work (SOW) and proposal evaluation, criteria established prior to soliciting |

| | |
|--|---|
| | <p>for products and services</p> <ul style="list-style-type: none">c. Contract solicitations are preceded by a bidders conferenced. Contracts are not entered into from an RFI processe. Direct contact is made with potential vendors when there are minimal or no competing responses to an RFI or RFPf. Clearly define, where appropriate, that subcontracting is permissible for requested services that deviate from vendors core product and service offerings, particularly when the service deviations would tend to limit competitiong. SOW's for products and services being requested are based on utilitarian specifications in the absence of a prudent documented business reason to request a particular brand nameplate |
|--|---|

- ☐ Include a copy of the supervisor's first report of incident (or related accident, event or incident investigation documentation).

4. Corrective Action Plan Statement

Provide a written narrative of the incident/event problem statement:

The Commission acknowledges the mistakes made in this procurement and has put several protocols in place to ensure this will not occur again. The procurement policy is being updated to include language so that even RFI's will be advertised on the County website. There will be no contracting from the RFI process, a comprehensive SOW and evaluation criteria will be established prior to soliciting for products and services. In addition, where there is limited response received from vendors, outreach will be made to contact vendors as to why there was no response. We will also be taking into consideration the other recommendations from Auditor Controller when developing the new policy.

The employee has been disciplined and the existing procurement officer who was also the central services manager is being replaced by a full time procurement officer with over 12 years' experience and a law degree to ensure proper compliance and control of all procurement outreach for the Commission. The division has since been reorganized to ensure proper oversight of the procurement department from the Director over Administrative Services and the Assistant Director.

While it is unfortunate to have had this issue arise in such a public arena, it is important to note that a \$300,000 savings annually is an immense benefit for the Commission due to continued cuts at both the federal and state levels. The way the RFI was handled is truly unfortunate and CDC is confident that procedures and staffing put in place will ensure it will not happen again; however, the decision to outsource the fleet department was and still is the best practice for the agency with considerable savings. To that end, the CDC will rebid the fleet services contract to determine the lowest, responsible bidder and based on bids received; make a recommendation in regards to the current contract.

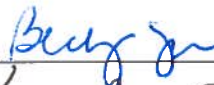


| | |
|--------------|---|
| Task number: | 1 |
| Task name: | Rewrite the Policy and Procedures for CDC Procurement |

| | |
|---------------------------|--|
| System issue: | <input type="checkbox"/> Process/procedure <input type="checkbox"/> Equipment <input type="checkbox"/> Personnel |
| Schedule start date: | 01/30/13 |
| Schedule completion date: | 03/29/13 |
| Responsible person: | Karen Ramirez-Smith, Acting Director Administrative Services Division |
| Task description: | The Acting director will work with staff and auditor controller to ensure proper guidelines are established within the policy on procurement to include formal advertising on any RFI. |

| | |
|---------------------------|---|
| Task number: | 2 |
| Task name: | Rebid the request for proposal for fleet services to ensure full compliance. |
| System issue: | <input type="checkbox"/> Process/procedure <input type="checkbox"/> Equipment <input type="checkbox"/> Personnel |
| Schedule start date: | 02/22/13 |
| Schedule completion date: | 04/19/13 |
| Responsible person: | Karen Ramirez-Smith, Acting Director Administrative Services Division |
| Task description: | The Acting director will work with staff, auditor controller, and county counsel to review cancelling existing contract with enterprise and rebidding the entire fleet process with full scope of services included in RFP and proper noticing on website as well as personal outreach to comparable agencies |

5. Review and Authorization

The department has reviewed the incident/event investigation and Corrective Action Plan and has taken all appropriate corrective actions required.

| Review and authorization steps: | Signature: | Date: |
|--|--|--------|
| Document reviewed by Risk Management department |  | 2.7.13 |
| Document reviewed by Administrative Services Director  |  | 2/7/13 |

Community Development Commission

May 28, 2013

To: Each Supervisor

From: Sean Rogan, Executive Director



SUBJECT: FLEET MANAGEMENT SERVICES SOLICITATION

This memo is in response to the Auditor Controller report of January 18, 2013, based on the motion by Supervisor Antonovich requesting a review of the Community Development Commission (CDC) Fleet Services Contract (Board Agenda Item 63-B, December 4, 2012). On February 7, 2013, the CDC submitted its Corrective Action Plan (CAP) to your Board which included a rebid of the Fleet Services Contract. This report provides the results of the rebid.

OUTREACH AND ADVERTISING

On March 5, 2013, the Procurement Department released a solicitation package for Fleet Management Services. The Solicitation Notice was posted on the Commission website and the County WebVen for 37 days. Approximately 30 vendors were contacted by email via the Commission's Online Solicitation System. In addition, 81 vendors were mailed a notice via registered mail with return receipt utilizing a list provided by the County's Auditor Controller Department and the Internet (for local dealers and major car rental companies). From the mailed notices, 76 return receipts were received by the Procurement Department, with five receipts returned undeliverable. Of those five undeliverable notices, two were then resent to new addresses and three were no longer in business.

During the solicitation period, 50 vendors downloaded the solicitation package. Questions were later received and responses provided in an addendum to the prospective proposers which prompted the extension of the due date for one week. Upon closing on April 11, 2013, only two proposals were received, one from Enterprise Fleet Management, Inc. (Enterprise) and the other from Avis Budget Group (Avis).

INITIAL PROPOSAL REVIEWS

A review of Enterprise proposal revealed that they had met nine of the ten minimum requirements when the "Pass/Fail" review was performed by staff. They had failed to meet the minimum requirement (subsection 1.4.4) regarding agreeing to the Commission Contract. Enterprise subsequently indicated that they currently have a negotiated contract with the Commission and agreed to execute a new agreement

utilizing the previously negotiated terms and conditions contained in their current Commission Contract. Enterprise is not included on the federal government's List of Parties Excluded from Procurement, or HUD's Limited Denials of Participation, or the County Debarment list. Therefore, due to the willingness of Enterprise to execute a negotiated Commission Contract (previously approved by County Counsel and the Board), Enterprise was considered responsive and was recommended for further review.

The second proposal submitted by Avis was determined non-responsive based on the "Pass/Fail" review performed by staff. The review indicated that Avis failed to meet any of the ten minimum requirements as stated in the solicitation package. The Avis proposal only included a cover page, two incomplete cost proposals, and a rental agreement, and was missing all other relevant items including the required RFP format, acceptance of the Commission's sample contract, Insurance requirements and mandatory compliance for child support, safe baby, jury service and defaulted property tax program. Avis was provided an opportunity (seven days) to respond to the disqualification for a review, but no request was received by the deadline. For cost comparison sake, the bid provided by Avis indicated an amount greater than 3 times the monthly rate under the current contract with Enterprise, and required providing new cars every six months.

EVALUATION PROCESS

The Proposal Evaluation Committee (PEC) consisted of a five-member panel, including two outside evaluators from other governmental entities and three Commission staff members. The evaluation instructions and score sheets were emailed to the PEC for their review prior to the initial meeting. On April 17, 2013, the PEC met to start the evaluation process and a proposal was distributed to each committee member. The Procurement Coordinator (Coordinator) reviewed the instructions and score sheets with the PEC. The evaluation documentation and process was based on criteria established in the solicitation package and utilized a 1,000 points system. On April 23, 2013, the PEC reconvened for the final review and discussion of the scoring for the proposal. After the meeting, the PEC members then approved and submitted their evaluation score sheets before submitting to the Coordinator. The Coordinator then completed the remaining evaluation factors (references, pending litigation and judgments, and cost) and calculated the "Informed Average" score sheets to determine the final overall score for the proposal.

The final score for the Enterprise Fleet Management proposal was 961 out of 1,000 points available.

FISCAL IMPACT

Of significant importance to this RFP is the impact of the current contract with Enterprise. The CDC would be required to pay the difference of the balance of the

existing lease less the current value of the cars in order to be released from the current contract. As of May 15, 2013, the total payoff amount for the 60 cars on this latest contract is estimated at \$1,023,000. (See attachment A) We are unsure at this time what the resale value may be for these cars which could reduce that amount by upwards of 50%. In addition, the current 5-year contract totals \$1,750,000, while the new proposal was for \$1,847,251, which reflects an increase of \$97,251. This increase is due to current cars no longer being available as well as a change in manufacturing rebates and incentives that were available at the time Enterprise bid a year a half ago.

NON-BIDDER RESPONSES

Prospective vendors who downloaded the solicitation package but did not submit a proposal were subsequently emailed about their reasons for not responding. The most common reasons were that they were unable to provide some or all of the services requested or were not interested. One of the obstacles stated was the fact that the request included maintenance and insurance on 17 existing Commission vehicles; many companies indicated they either would not or could not provide insurance on cars they did not own. Given the young age and low mileage of these cars, it was important for the Commission to keep these cars in the RFP. It did not make financial sense to dispose of these cars and lease new ones given the fact that they were in excellent operating condition.

RECOMMENDATION

In summary, Enterprise Fleet Management was the only responsive and responsible bidder to the new solicitation, but at a higher rate than their current Commission Contract. The Avis proposal was not only incomplete, but their proposed rate was three times our current cost per month. Based on these facts, it makes fiscal sense to continue with our current contract with Enterprise. Once the remaining four years have been completed, we will rebid the contract to include the replacement and disposal of the remaining 17 CDC-owned cars.

For the reasons identified above, we propose to keep our current contract in place and consider this the final response required to complete our CAP on this issue. Should you need any further information on this matter, please contact my Interim Administrative Services Director, Karen Ramirez-Smith at (626) 586-1860. Thank you.

SR:krs

c: William T. Fujioka, Chief Executive Officer
John F. Krattli, County Counsel
Sachi A. Hamai, Executive Officer, Board of Supervisors
Montessa Duckett, CEO Budget Analyst
Audit Committee

5.29.13 10:01 AM
11:01 AM